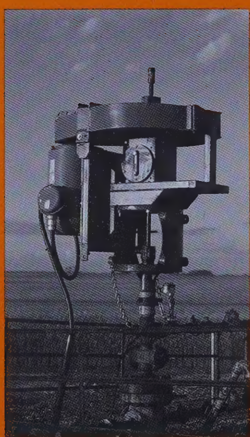
REAL RESOURCES INC.

annual report
2000

Real Resources Inc.



THE COMPANY

Real Resources is a Calgary based oil and gas company active in the exploration, development and production of crude oil and natural gas in the Western Canadian Sedimentary Basin. The Company has grown through exploration, development and strategic acquisitions.

ANNUAL MEETING

You are cordially invited to attend the Annual General and Special Meeting of the Shareholders of Real Resources Inc. which will be held on May 31, 2001 at the Selkirk Conference Centre on the second floor at 555 - 4th Avenue S.W., Calgary, Alberta, at 3:00 p.m.
If unable to attend, shareholders are requested to complete and return the Proxy form to the Secretary of the Company.

ABBREVIATIONS

bbls	barrels
mbbls	thousand barrels
bbl/d	barrels of oil per day
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmcf	million cubic feet
boe	barrels of oil equivalent where natural gas is equated to oil using 6 mcf = 1 barrel of oil
mboe	thousand barrels of oil equivalent
NGL	natural gas liquids

CONTENTS

2000 Performance

HIGHLIGHTS

($ thousands, except per share data)	2000	1999	% Change
Petroleum and natural gas revenue	39,526	15,816	150
Cash flow from operations	22,720	8,061	182
Per share (basic)	1.35	0.54	150
Per share (fully diluted)	1.25	0.51	145
Net earnings	8,582	4,569	88
Per share (basic)	0.51	0.30	70
Per share (fully diluted)	0.48	0.29	66
Net capital expenditures	28,806	9,070	218
Corporate acquisitions	26,390	–	–
Long term debt	22,725	3,789	500
Shareholders' equity	42,120	23,118	82
Common shares outstanding (thousands)			
Basic	18,474	16,028	15
Fully diluted	20,386	17,617	16
Production			
Crude oil and NGLs (bbl/d)	2,160	1,665	30
Natural gas (mcf/d)	4,658	344	1,254
Barrels of oil equivalent (boe/d)	2,937	1,722	71
Prices			
Crude oil and NGLs ($/bbl)	36.54	25.38	44
Natural gas ($/mcf)	5.90	2.29	158
Reserves			
Crude oil and NGLs (mmbbls)			
Proved	5.3	4.9	8
Proved plus probable	7.3	7.7	(5)
Natural gas (bcf)			
Proved	37.5	7.6	392
Proved plus probable	51.0	12.8	300
Undeveloped land holdings			
Gross acres (thousands)	282	229	23
Net acres (thousands)	156	98	59
Wells drilled (working interest)			
Gross	45	22	205

Message to our Shareholders

Real Resources Inc., through adherence to the business plan that has generated the Company's growth, completed its most active and successful year ever in 2000. The year was marked by a number of successes that include new records being achieved for production, revenue, cash flow and earnings as well as two corporate acquisitions which complimented and expanded our operating base. The Company increased its exposure to natural gas and continued to build its undeveloped land base and exploration prospect inventory. The numerous opportunities ahead will ensure that Real is in a strong position for continued growth performance in 2001.

STAYING THE COURSE

Over the last three years the Company has proven its persistence in sticking with its business plan. We have grown from a small 100 percent oil producer into a thriving junior full cycle oil and natural gas exploration and production company. Real remains committed to our primary goal: the creation of shareholder value.

PURCHASE AND DEVELOP OIL RESERVES

Canadian oil prices in 2000 were the highest ever recorded. This was a dramatic change from the extremely low prices experienced two years ago. The high volatility exhibited by oil prices has created the opportunity to purchase oil reserves below long term market value during price lows and then develop those reserves in periods of price highs. Development and acquisitions of oil reserves resulted in average daily oil production of 2,160 barrels in 2000, an increase of 30 percent from the 1,665 barrels produced in 1999. Oil reserves continue to be sold below long-term market value due to price volatility. Real will maintain its plan of purchasing oil reserves with development potential while this aberration exists.

The year was marked by a number of successes that include new records being achieved for production, revenue, cash flow and earnings as well as two corporate acquisitions which complimented and expanded our operating base.

EXPLORE FOR NATURAL GAS

The price received for natural gas has increased steadily since 1995. The average price of Canadian natural gas in 2000 was the highest ever. The Company's plan has been to develop a large inventory of exploration projects targeting natural gas. Due to expectations of higher natural gas prices in the future, the opportunity to purchase natural gas reserves cheaply hasn't existed for several years. Real's thrust has taken the Company from minimal natural gas production to where approximately 40 percent of present production is natural gas. In 2000, daily natural gas production averaged 4.7 million cubic feet per day, an increase of 1,254 percent from the 0.3 million cubic feet per day produced in 1999. Real's goal is to balance production and reserves between oil and natural gas. The Company is getting close to meeting that objective. In the current high natural gas price environment, the purchase of gas reserves is prohibitive. Real will continue with its approach of exploring for natural gas.

BUILDING FOR THE FUTURE

The Company's strategy for growth is unchanged.

- Pursue oil and gas prospects in the Western Canadian Sedimentary Basin.
- Assemble large land positions in focused geologic and geographic areas.
- Maintain large working interests and act as operator.
- Generate prospects internally.
- Manage levels of debt.

By adhering to this strategy, Real now has a large inventory of prospects in various stages of maturity. As these prospects are pursued, the Company will continue to achieve meaningful growth. Real currently has an inventory of 25 prospects with a drilling inventory of about 150 wells. This prospect inventory is sufficient to maintain an active program over the next couple of years.

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2000 RESULTS

All significant measures of corporate performance showed improvements in 2000. The Company set corporate records for production, revenue, cash flow and earnings both in absolute and per share terms. Real's capital expenditures and number of wells drilled in 2000 were the highest in Company history, indicating our commitment to future growth.

The high level of capital expenditures in 2000 has left the Company well positioned for the future. Real has a strong balance sheet, the largest inventory of undeveloped land and the largest seismic database in its corporate history. These elements are the raw materials required for growth.

The Company's capital expenditures of $55.2 million were up more than 500 percent over 1999. A major portion of the capital expenditures related to the acquisition of Prism Petroleum Inc. This acquisition expanded Real's operating base, augmented its operations in the Provost area and added several new exploration prospects to its existing inventory. Despite record capital expenditure levels, long-term debt at year-end 2000 was kept to $22.7 million. Annualizing fourth quarter cash flow of $7.5 million, this gives the Company a very comfortable debt to cash flow ratio of less than 1 which is well below the corporate objective of being less than 2 times.

In 2000, Real drilled 45 (32.1 net) wells, resulting in 11(9.0 net) oil wells, 22 (15.5 net) gas wells and 12 (7.6 net) abandoned wells. Of the 45 wells, 27 were classified as exploratory wells confirming our commitment to growth through the drill bit. The Company operated 42 of these wells which is in accordance with its operating strategy.

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Average daily production increased 71 percent to 2,937 barrels of oil equivalent per day from 1,722 barrels of oil equivalent per day in 1999. The oil equivalent calculation utilizes a conversion of 6 mcf of natural gas equals 1 barrel of oil which is the recommended guideline by the Alberta Securities Commission's Taskforce on Oil and Natural Gas Industry Reporting Standards. The first meaningful natural gas production for Real commenced in January 2000 and by December 2000 natural gas production had increased to approximately 9 million cubic feet per day and constituted about 40 percent of the Company's total volumes.

Gross revenue for 2000 amounted to $39.5 million, an increase of 150 percent from $15.8 million in 1999. The Company achieved record cash flow and net earnings in 2000 of $22.7 million or $1.35 per basic share and $8.6 million or $0.51 per basic share respectively. This compared to cash flow of $8.1 million or $0.54 per basic share and earnings of $4.6 million or $0.30 per basic share in 1999. The huge increases in revenue, cash flow and earnings were attributable to the strong commodity prices and increased production volumes.

Year-end reserves on a proved plus probable basis rose 61 percent to 15.8 million barrels of oil equivalent compared to 9.8 million at year-end 1999. On a proved basis, Real's reserve life ratio at year-end 2000 using 2000 average production rates was 10.8 years. This indicates a shift toward longer life reserves since the comparable ratio for 1999 was 9.7 years.

The Company's three-year average finding and development costs of $7.89 (proved) and $6.26 (proved plus probable) per barrel of oil equivalent were about average for our industry peer group. The Company's 2000 finding and development costs of $8.52 (proved) and $7.79 (proved plus probable) per barrel of oil equivalent were higher than usual for Real. The corporate objective is to maintain finding and development costs below $5.10 per barrel of oil equivalent on a proven plus half probable basis. The higher 2000 results were a reflection of higher industry costs plus costs incurred during the year establishing positions in prospects that had not been fully evaluated by year-end. Hence the Company expects lower cost reserve additions in 2001 as a result of our 2000 efforts and expenditures.

With Real's extensive inventory of opportunities and continued strong commodity prices, 2001 promises to be an outstanding year.

BUILDING ON OUR SUCCESS

In assessing the future of Real's business, it is apparent that the era of "cheap" natural gas is gone. The industry is having some difficulty in keeping up to the demand for natural gas. This demand will not be satisfied until frontier gas from northern Canada/United States and offshore Nova Scotia is pipelined into the existing infrastructure. These projects require long lead times before production is initiated. It is reasonable to assume that this will not occur within the next 5 years. Although it is hard to believe that gas prices will stay at the levels currently being enjoyed, it is realistic to assume that gas prices will continue to be strong until frontier gas starts to flow.

The future for the Canadian gas industry is bright. The Company has grown its gas exposure dramatically in 2000 and will continue to do so this year. A major portion of the 2001 capital budget is directed towards gas opportunities.

The high levels of oil prices in 2000 was surprising given the doldrums of late 1998 and early 1999. It appears that OPEC has gained control of the oil market and brought a level of stability to oil prices. With OPEC in control it is a reasonable assumption that oil prices will remain higher than those experienced in the 1990's. Real has a number of oil development projects that will allow us to grow both oil production and reserves.

With Real's extensive inventory of opportunities and continued strong commodity prices, 2001 promises to be an outstanding year.

OUR APPRECIATION

Real has been built one person at a time. We are extremely proud of our people and their accomplishments in building the Company to its current status. It is this group of individuals that will continue to create value for Real and our shareholders.

Effective July 31, 2000, Stan Grad resigned from Real's Board of Directors to devote his energy to his ranch and charitable organizations. Stan has been a member of the Board for the past several years and a friend and mentor of mine for many years. I would like to express my thanks to him for his contributions to the Company.

Nolan Blades accepted appointment to Real's Board of Directors on July 31, 2000. Nolan is a welcome addition to the Board bringing extensive experience in the oil and natural gas industry.

Real is proud to acknowledge the 1999 Annual Report award by Oilweek Magazine to Lesley L.N. Miller, Vice President Finance & C.F.O. for the top Financial Statements and Analysis in the Junior Oil & Gas sector.

In closing I would like to thank our Board of Directors for their guidance throughout the year. I would also like to thank our shareholders for their support.

On Behalf of the Board of Directors

LOWELL E. JACKSON
President & Chief Executive Officer
March 22, 2000

Sticking [illegible]

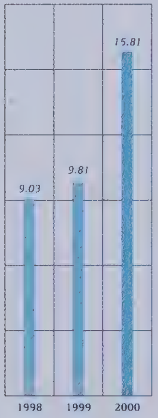
set new benchmarks in our tra[illegible]

Statistical Review

RESERVES

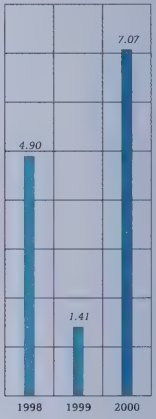
Reserves Reconciliation

TOTAL RESERVES
in millions of barrels of oil equivalent (6:1) proved + probable



	Proved	Probable	Total
Crude Oil and NGLS (mbbls)			
January 1, 2000, opening balance	4,867	2,819	7,686
Production	(790)	–	(790)
Revisions	(190)	(1,154)	(1,344)
Additions	963	291	1,254
Acquisitions	430	69	499
Property dispositions	–	–	–
December 31, 2000, closing balance	5,280	2,025	7,305
Natural Gas (mmcf)			
January 1, 2000, opening balance	7,631	5,134	12,765
Production	(1,705)	–	(1,705)
Revisions	(717)	(3,696)	(4,413)
Additions	11,708	7,445	19,153
Acquisitions	20,599	4,632	25,231
Property dispositions	–	–	–
December 31, 2000, closing balance	37,516	13,515	51,031

RESERVE ADDITIONS
in millions of barrels of oil equivalent (6:1) – including acquisitions & revisions



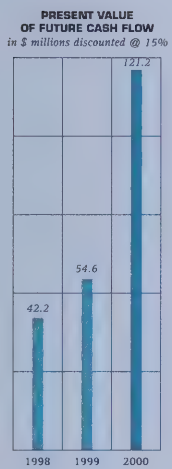
Reserves by Property

(at December 31, 2000)	Proved	Probable	Total
Crude Oil and NGLS (mbbls)			
Sounding Lake	1,479	589	2,068
Rocanville	668	665	1,333
Alida West	907	135	1,042
Hays	721	177	898
Evi	276	76	352
West Provost	229	41	270
Other Properties	1,000	342	1,342
Total	5,280	2,025	7,305
Natural Gas (mmcf)			
Atlee-Buffalo	12,839	3,555	16,394
Prairie River	2,939	2,311	5,250
West Provost	3,820	674	4,494
Scandia/Enchant	3,099	1,377	4,476
Hays	2,704	421	3,125
Bigoray	1,387	1,229	2,616
Other Properties	10,728	3,948	14,676
Total	37,516	13,515	51,031

VALUE OF RESERVES

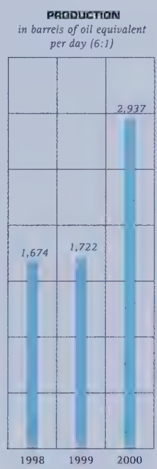
Present Worth of Future Cash Flow

($ thousands)	December 31, 2000			December 31, 1999			December 31, 1998		
Discount	0%	15%	20%	0%	15%	20%	0%	15%	20%
Proved	182,398	99,523	88,341	64,570	39,124	35,014	47,136	25,521	22,191
Probable	54,199	18,791	14,924	30,535	12,923	10,615	33,788	14,231	11,801
ARTC	7,015	2,897	2,404	4,063	2,521	2,272	3,962	2,483	2,234
Total	243,612	121,211	105,669	99,168	54,568	47,901	84,886	42,235	36,226



Pricing Forecast

	West Texas Intermediate US $/bbl			Edmonton Reference Price Cdn $/bbl			Corporate Average Natural Gas Price Cdn $/mcf		
December 31	2000	1999	1998	2000	1999	1998	2000	1999	1998
1999	–	–	15.00	–	–	21.73	–	–	2.20
2000	–	21.00	17.00	–	29.43	23.98	–	2.67	2.25
2001	27.00	20.00	19.00	39.91	27.57	26.10	6.88	2.75	2.30
2002	24.00	20.50	20.00	34.80	27.85	27.51	5.04	2.75	2.41
2003	23.00	20.91	20.50	32.78	28.00	28.20	4.65	2.75	2.54



PRODUCTION

Production by Area

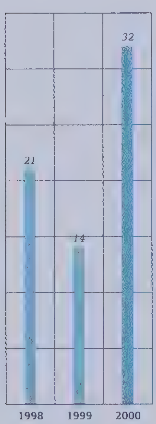
	2000	1999	1998
Crude Oil and NGLS (bbl/d)			
Sounding Lake	647	700	892
Nelson Lake	28	68	136
Rocanville	158	154	129
Hays/Enchant	195	143	106
Browning/Clarilaw	51	113	103
Ashley Lake	65	67	83
Alida	668	313	71
Evi	166	65	53
Virginia Hills	56	–	–
Minor Properties	126	42	35
Total	2,160	1,665	1,608
Natural Gas (mcf/d)			
Sounding Lake	289	55	–
Atlee Buffalo	595	–	–
Judy Creek	243	–	–
Ricinus	486	–	–
Virginia Hills	1,822	–	–
West Provost	326	–	–
Minor Properties	897	289	396
Total	4,658	344	396

ACREAGE SUMMARY

(at December 31, 2000) (acres)	Total Gross	Total Net	Undeveloped Gross	Undeveloped Net	Fair Market Value*
Alberta	400,630	214,520	224,070	124,655	$ 7,923,058
Saskatchewan	55,796	27,933	50,237	24,715	1,263,115
Manitoba	7,850	6,478	7,927	6,513	109,990
Total	464,276	248,931	282,234	155,883	$ 9,296,163

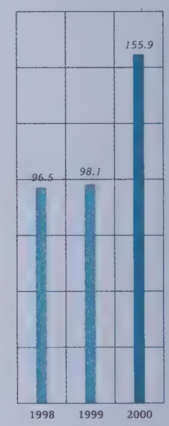
DRILLING ACTIVITY

DRILLING ACTIVITY
number of net wells drilled



	2000 Gross	2000 Net	1999 Gross	1999 Net	1998 Gross	1998 Net
Exploratory Wells						
Oil	3	2.5	0	0.0	1	0.3
Gas	14	8.9	2	1.0	1	0.4
Dry	10	5.8	6	4.0	5	2.1
Sub-Total	27	17.2	8	5.0	7	2.8
Success Rate (%)	63	66	25	20	29	25
Average Working Interest (%)		64		63		40
Operated Wells		26		8		4
Development Wells						
Oil	8	6.5	9	5.4	24	16.9
Gas	8	6.6	1	0.5	1	0.1
Service	–	–	3	2.3	1	0.2
Dry	2	1.8	1	0.5	2	1.5
Sub-Total	18	14.9	14	8.7	28	18.7
Success Rate (%)	89	88	93	94	93	92
Average Working Interest (%)		83		62		67
Operated Wells		16		9		23
Total Wells						
Oil	11	9.0	9	5.4	25	17.2
Gas	22	15.5	3	1.5	2	0.5
Service	–	–	3	2.3	1	0.2
Dry	12	7.6	7	4.5	7	3.6
Sub-Total	45	32.1	22	13.7	35	21.5
Success Rate (%)	73	76	68	67	80	83
Average Working Interest (%)		71		62		61
Operated Wells		42		17		27

NET UNDEVELOPED LAND
in thousands of acres

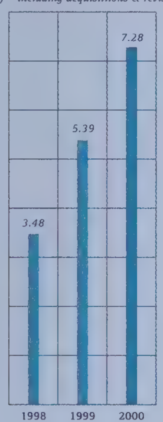


* *Seaton-Jordan & Associates Ltd. – Undeveloped Lands Only*

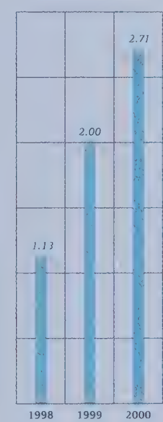
FINDING AND ON-STREAM COSTS

	2000	1999	1998
Finding Costs ($ thousands) (net of dispositions)			
Land	$ 2,575	$ (1,925)	$ 2,002
Seismic	1,849	1,319	1,590
Drilling and Completion	14,894	6,807	7,715
Acquisitions	32,165	1,412	5,730
Total finding costs	51,483	7,613	17,037
Facilities	3,646	1,438	2,538
Total on-stream costs	$ 55,129	$ 9,051	$ 19,575
Reserve Additions (including acquisitions & revisions) (mboe)*			
Proved	6,472	1,791	2,356
Proved plus probable	7,074	1,413	4,900
Finding Cost per Unit ($/boe) *			
Proved	$ 7.95	$ 4.25	$ 7.23
Proved plus probable	$ 7.28	$ 5.39	$ 3.48
On-stream ($/boe) *			
Proved	$ 8.52	$ 5.05	$ 8.31
Proved plus probable	$ 7.79	$ 6.41	$ 3.99
Recycle Ratio			
Proved	2.48	2.54	0.55
Proved plus probable	2.71	2.00	1.13

FINDING & ON STREAM COSTS
in dollars per barrel of oil equivalent (6:1) – including acquisitiions & revisions



RECYCLE RATIO
of proved + probable reserves



* *Natural gas converted to oil equivalent at 6 mcf = 1 bbl*

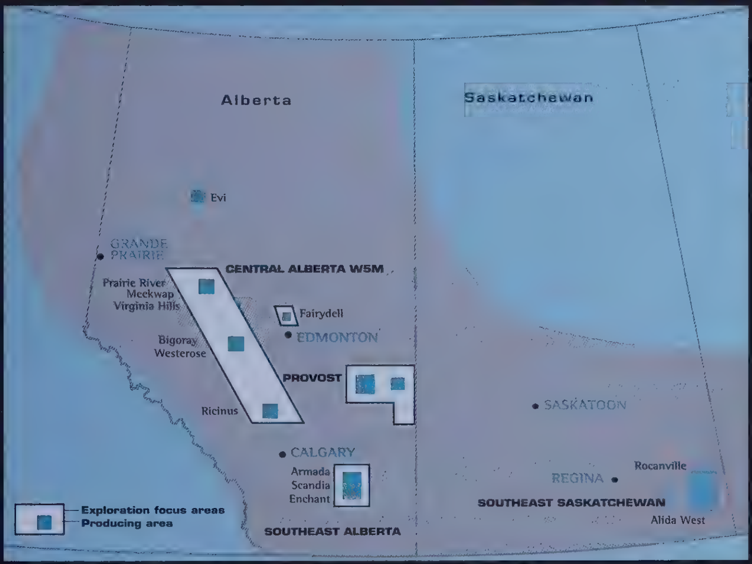
STOCK TRADING SUMMARY

		Price Range		Trading
	High	Low	Close	Volume
2000				
1st Quarter	$ 2.32	$ 1.54	$ 2.32	700,406
2nd Quarter	4.00	2.16	3.90	1,835,006
3rd Quarter	3.94	3.21	3.30	1,463,871
4th Quarter	3.50	2.60	3.30	880,718
				4,880,001
1999				
1st Quarter	$ 1.88	$ 1.00	$ 1.40	471,811
2nd Quarter	2.24	1.28	1.46	701,538
3rd Quarter	2.68	1.24	2.08	920,923
4th Quarter	2.28	1.40	1.68	1,031,035
				3,125,307
1998				
1st Quarter	$ 3.80	$ 2.80	$ 3.20	645,562
2nd Quarter	5.60	3.00	4.32	1,043,606
3rd Quarter	4.40	3.00	3.24	439,906
4th Quarter	3.40	1.40	1.60	564,529
				2,693,603

[illegible] growth strategy continues to be based on longer term [illegible] exploration and development.

Review of Core Properties

EXPLORATION AND DEVELOPMENT



E & D STATS - 2000	
Land Holdings	
Year end 1999 (gross acres)	258,286
Year end 2000 (gross acres)	464,276
Change	80%
Net Reserves (Proven + Probable)	
Year end 1999 (mboe)	9,814
Year end 2000 (mboe)	15,810
Change	61%
Drilling Activity	
1999 gross wells	22
2000 gross wells	45
Change	105%
Net Production	
1999 (average daily boe)	1,722
2000 (average daily boe)	2,937
Change	71%

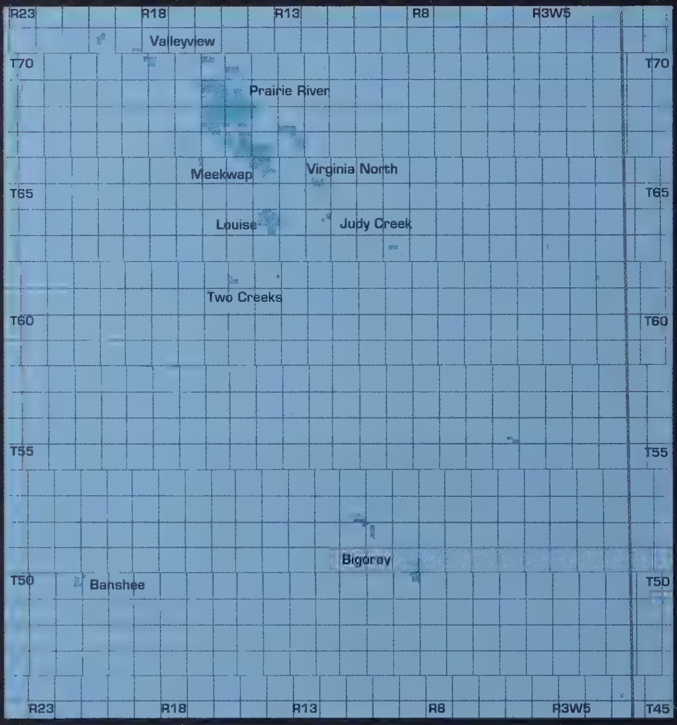
Real's growth strategy continues to be based on longer term, full-cycle exploration and development. During 2000 the exploration program was consistent with that approach and provided-significant reserve and production increases. As well, continued land acquisition, seismic interpretation and exploration drilling have provided the Company with more than two year's inventory of additional drilling prospects.

Real's operated exploration, development and production activities continue to be focussed in three principal areas: Central Alberta, Southeast Alberta and Southeast Saskatchewan. Currently, the Company operates over 80% of its production. During 2000, the Company expanded its Central Alberta W5M exploration activity, targeting

medium depth oil and gas reserves. In addition to providing several W5M exploratory gas prospects, the acquisition of Prism Petroleum Inc. enhanced the Company's position in Southeast Alberta by consolidating and adding to existing core assets.

Central Alberta - W5M

In 2000, Real continued its active exploration program in Central Alberta. The active areas included Prairie River, Meekwap, Virginia Hills (Louise), Bigoray and Westerose. During the year, 19 gross (11.7 net) exploratory wells were drilled in the Company's Central Alberta core area. This resulted in 10 gross (6 net) gas wells, 2 gross (2 net) oil wells and 7 gross (3.7 net) dry holes. At Prairie River, gas was tested from multiple zones at drill stem rates up to 6.5 mmcf/d. Most of the wells



CENTRAL ALBERTA	
Central Alberta – W5M Project Area – 2000	
Land Holdings	
Year end 1999 (gross acres)	62,720
Year end 2000 (gross acres)	163,593
Change	161%
Net Reserves (Proven + Probable)	
Year end 1999 (mboe)	666
Year end 2000 (mboe)	4,053
Change	509%
Drilling Activity	
1999 gross wells	8
2000 gross wells	23
Change	188%
Net Production	
1999 (average daily boe)	65
2000 (average daily boe)	647
Change	895%

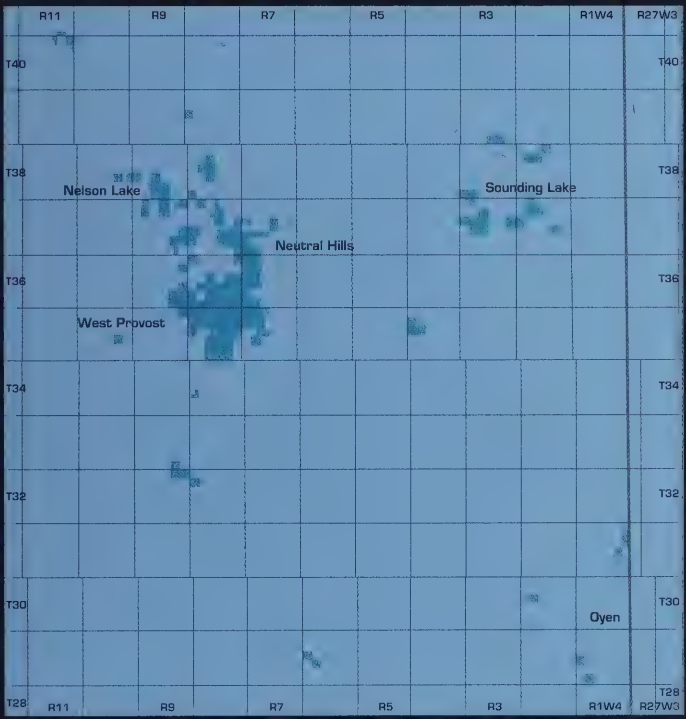
have already been production tested. In addition 4 gross (3.5 net) development wells, including one re-entry, were drilled, resulting in 4 gas wells. Two of these wells were at Bigoray, 1 re-entry at Louise and 1 dual zone gas discovery at Westerose.

To take advantage of winter access in the first quarter of 2001, the Company drilled an additional 9 gross (6.0 net) exploratory wells in the Prairie River/Meekwap/Virginia areas, resulting in 3 gross (2.5 net) gas wells and 6 gross (3.5 net) dry holes.

Currently, Real and a midstream company have jointly entered into an agreement to construct, own and operate a 35 km pipeline at Prairie River. The winter access portion of the pipeline is nearing completion and the pipeline is expected to be operational by July 2001. The pipeline will allow at least two wells to commence production this summer, with up to an additional five wells to be tied-in next winter after freeze-up.

Southeast Alberta- W4M

At Armada, Enchant/Scandia, Nelson Lake, Provost and Fairydell, Real drilled 7 gross (5.4 net) exploratory wells and 12 gross (10.1 net) development wells in 2000. This program resulted in 10 gross (7.5 net) gas wells, 6 gross (5.2 net) oilwells and 3 gross (2.8 net) dry holes. During the 2000 program, significant new oil and gas discoveries were made at Fairydell, Nelson Lake and Armada. Along with shooting several 3D seismic programs, the Company plans to drill a number of follow up wells in 2001.



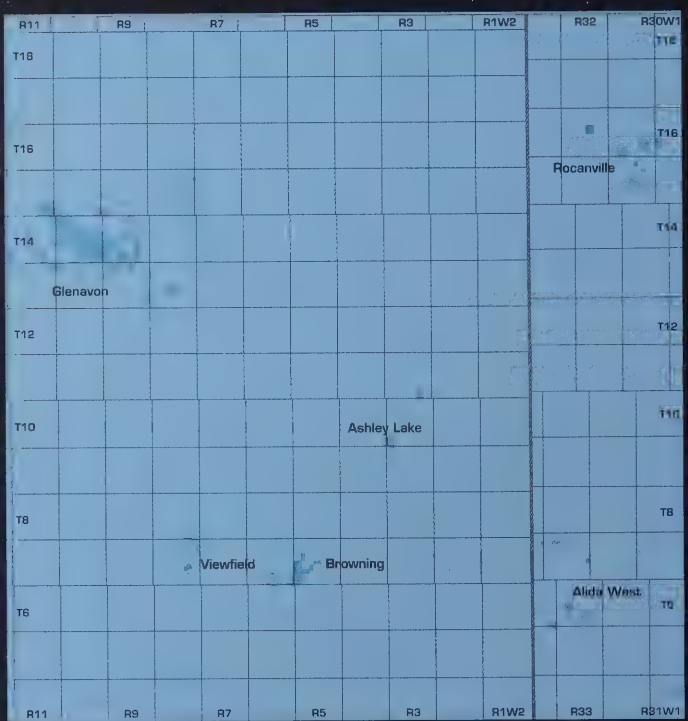
SOUTHEAST ALBERTA	
Southeast Alberta 2000	
Land Holdings	
Year end 1999 (gross acres)	26,144
Year end 2000 (gross acres)	105,540
Change	304%
Net Reserves (Proven + Probable)	
Year end 1999 (mboe)	5,834
Year end 2000 (mboe)	9,007
Change	54%
Drilling Activity	
1999 gross wells	8
2000 gross wells	19
Change	138%
Net Production	
1999 (average daily boe)	1,010
2000 (average daily boe)	1,348
Change	33%

Four additional exploratory wells (2.2 net) were also drilled in the first quarter of 2001, resulting in 2 gross (1 net) gas wells and 2 gross (1.2 net) dry holes. Offset drilling is planned in the Armada area adjacent to the new gas discoveries.

The Company has increased its land and reserve base in the Provost area. Following the first quarter central Alberta program, (winter only drilling activity), Real plans a very aggressive southern Alberta drilling program (up to 40 wells) for the balance of 2001.

Southeast Saskatchewan

Alida West, in which Real operates and holds a 100% working interest, was the principal area of activity in southeast Saskatchewan where the Company successfully drilled its third successful horizontal oil well in the first half of 2000. During the first quarter of 2001 a fourth horizontal oil well was drilled and is now on production. Real also plans to drill at least one new horizontal well at its Rocanville property in the second quarter 2001. Both of these properties produce 40 API° oil. An exploratory Red River test is also planned for the third quarter in the Glenavon prospect.



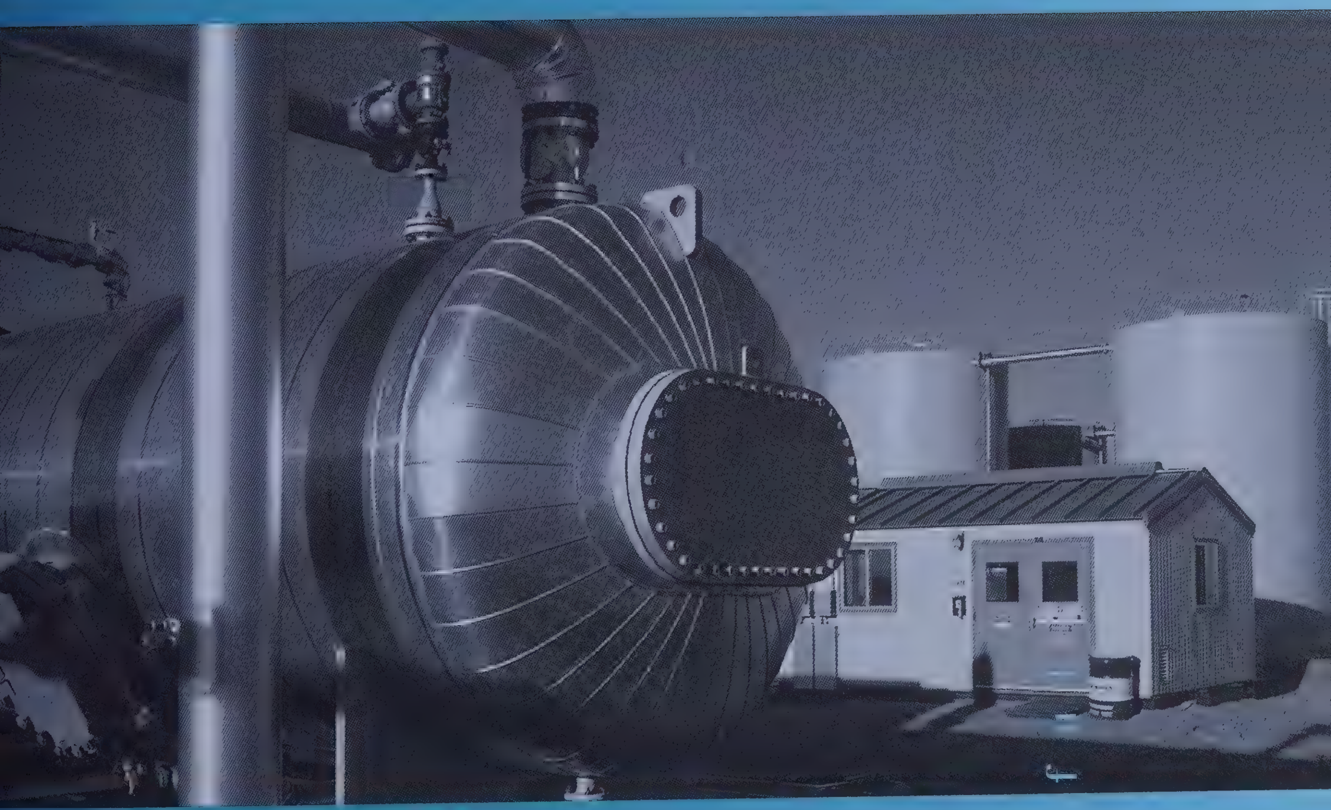
SOUTHEAST SASKATCHEWAN	
Southeast Saskatchewan – 2000	
Land Holdings	
Year end 1999 (gross acres)	21,395
Year end 2000 (gross acres)	54,996
Change	157%
Net Reserves (Proven + Probable)	
Year end 1999 (boe)	3,314
Year end 2000 (boe)	2,750
Change	(17%)
Drilling Activity	
1999 gross wells	5
2000 gross wells	1
Change	(80%)
Net Production	
1999 (average daily boe)	647
2000 (average daily boe)	942
Change	46%

PRODUCT MARKETING

The company utilizes the services and expertise of various oil and gas marketers to sell its production. Crude oil and natural gas liquids are sold under short term contracts. Gas production is sold through a combination of purchasers with approximately 75% being sold at AECO spot market prices.

Real has a hedging program in place to manage the Company's exposure to crude oil and natural gas price fluctuations. The hedging program will allow the Company to ensure its base capital program can be funded by a threshold cash flow while also realizing increased netbacks from the record commodity prices we are now experiencing.

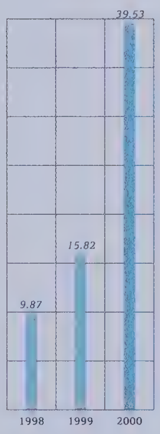
Strong crude oil and natural gas prices provided the company [illegible] record revenues with [illegible]



Management's Discussion and Analysis

The following discussion and analysis should be read in conjunction with the financial statements for the years ended December 31, 2000 and 1999.

REVENUE
in $ millions



OVERVIEW OF 2000

Strong crude oil and natural gas prices paved the way for record revenues, cash flows and earnings in 2000. This allowed the Company to pursue an aggressive capital expenditure and acquisition program during the year.

FINANCIAL REVIEW

Revenues

Oil and gas revenue increased 150% to $39,526,000 in 2000 from $15,816,000 in 1999. This substantial revenue growth was a result of higher production levels and higher commodity prices in 2000.

Average daily oil and NGL production increased 30% to 2,160 bbl/d in 2000 from 1,665 bbl/d in 1999. The production increase was attributable to successful drilling programs at Alida and Evi, property acquisitions at Hays and Evi and the Flatland and Prism acquisitions.

The average oil and NGL price, net of hedging losses, received by the Company during 2000 was $36.54 per barrel, a 44% increase from the $25.38 received in 1999.

Natural gas production increased 1,254% to 4,658 mcf/d from 344 mcf/d in 1999. This growth in production was due to commencement of production from the Virginia Hills and Judy Creek areas and the Prism acquisition. The Company's average natural gas price increased 158% to $5.90 per mcf in 2000 from $2.29 in 1999.

Oil Equivalent* Netbacks

($/boe)	2000	1999
Sales revenue	$ 39.84	$ 25.77
Hedging losses	(3.06)	(0.62)
Net royalties	(7.14)	(3.29)
Operating costs	(5.25)	(5.78)
Netback	$ 24.39	$ 16.08

* Natural gas converted to oil equivalent at 6 mcf = 1 bbl

Royalties

Royalty expenses increased to $7,965,000 from $2,564,000 in 1999. As a percentage of gross revenue, royalties increased to 20% in 2000 from 16% in 1999, reflecting the higher Crown royalty rate paid on our gas production.

The Alberta Royalty Tax Credit ("ARTC") earned for 2000 decreased to $290,000 from $495,000 for 1999. This decrease reflects the allocation of the annual Crown royalty shelter between the Company and Prism and also reflects the lower ARTC rate for 2000. The average ARTC rate for 2000 was 25.84% as compared to 68.85% for 1999.

Other Revenue

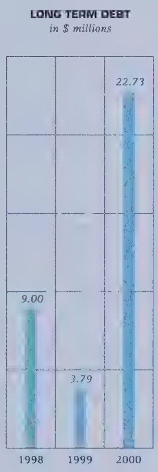
Other revenue decreased to $4,000 from $7,000 in 1999. Other revenue consisted of interest income earned from miscellaneous sources.

Operating Expenses

Operating expenses increased 55% to $5,640,000 from $3,635,000 in 1999 as a result of higher production levels. On a unit of production basis, operating expenses declined 9% to $5.25 per boe in 2000 as compared with $5.78 per boe in 1999, reflecting the Company's ongoing efforts to reduce operating costs.

General and Administrative Expenses

General and administrative expenses increased to $1,833,000 for 2000 compared with $1,403,000 in 1999. This 31% increase is attributable to the addition of staff and the use of consultants during 2000 as required by the growth in the operations of the Company. On a unit of production basis, general and administrative expenses decreased by 23% to $1.71 per boe from $2.23 per boe in 1999. Real capitalized $845,000 as compared to $532,000 in 1999 of overhead directly related to acquisition, exploration and development activities.



General and Administrative Expenses

($ thousands)	2000	1999
Gross expense	$ 3,736	$ 2,571
Operator recoveries	(1,058)	(636)
Subtotal	2,678	1,935
Capitalized expense	(845)	(532)
Net expense	$ 1,833	$ 1,403

Average General and Administrative Expense per Barrel Equivalent *

$/boe	2000	1999
Gross expense	$ 3.48	$ 4.09
Operator recoveries	(0.98)	(1.01)
Subtotal	2.50	3.08
Capitalized expense	(0.79)	(0.85)
Net expense	$ 1.71	$ 2.23

* *Natural gas converted to oil equivalent at 6 mcf = 1 bbl*

Interest Expense

Interest expense for 2000 was $1,008,000 versus $386,000 in 1999. This 161% increase reflects the use of bank debt to finance the capital expenditure program, including corporate acquisitions, and the higher interest rate applicable to the debt due to increased prime lending rates.

Depletion and Depreciation

Depletion and depreciation expense increased to $7,465,000 from $2,973,000 in 1999 partially due to the increased production levels. Depletion and depreciation expense was $6.95 per boe in 2000 as compared with $4.73 per boe in 1999. These increased depletion and depreciation expense numbers reflect the gross-up on acquisitions without full tax basis as required by the new accounting standard for income taxes and the higher finding and development costs experienced in 2000.

Site restoration expense increased 39% to $719,000 in 2000 from $519,000 in 1999. Site restoration expense was $0.67 per boe in 2000 as compared with $0.82 per boe in 1999. At December 31, 2000, the estimated future site restoration costs to be accrued over the remaining life of proven reserves were $7,201,000.

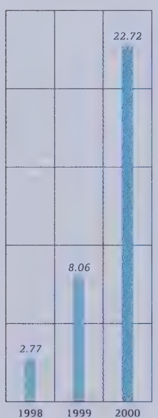
Income Taxes

The Company's current tax expense increased to $654,000 from $269,000 in 1999. The current tax expense relates to Saskatchewan capital tax and large corporations tax. All other current income taxes have been deferred using the Company's accumulated tax pools. As shown in the following table, Real had $51,081,000 of tax pools at December 31, 2000.

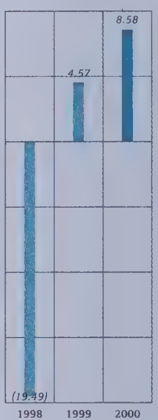
Summary of Tax Pools at December 31, 2000

($ thousands)	Maximum Available Balances	Maximum Annual Deduction
Canadian Exploration Expense	$ 7,948	100%
Canadian Development Expense	10,351	30%
Canadian Oil & Gas Property Expense	20,609	10%
Undepreciated Capital Costs	12,122	4 – 30%
Foreign Exploration & Development Expense	51	10%
Total	$ 51,081	

CASH FLOW
in $ millions



NET EARNINGS
in $ millions



Net Earnings and Cash Flow from Operations

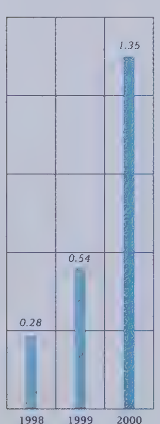
Net earnings rose to $8,582,000 for the year as compared with net earnings of $4,569,000 in 1999. Net earnings per basic share increased 70% to $0.51 from $0.30 in 1999. Fully diluted net earnings per share increased 66% to $0.48 in 2000 from $0.29 in 1999. Cash flow from operations soared 182% to $22,720,000 from the 1999 amount of $8,061,000. Cash flow from operations per basic share rose 150% to $1.35 from $0.54 in 1999 and cash flow from operations per fully diluted share increased to $1.25 as compared to $0.51 in 1999.

Netbacks

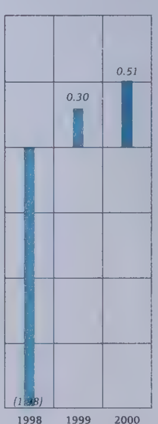
$/boe *	2000	1999
Oil and gas revenue	$ 36.78	$ 25.15
Net royalties	(7.14)	(3.29)
Operating expenses	(5.25)	(5.78)
Field netback	24.39	16.08
Other income	0.00	0.01
General and administrative expenses	(1.71)	(2.23)
Interest expense	(0.94)	(0.61)
Current taxes	(0.60)	(0.43)
Cash flow netback	21.14	12.82
Depletion and depreciation	(6.95)	(4.73)
Site restoration	(0.67)	(0.82)
Future income taxes	(5.53)	–
Corporate netback	$ 7.99	$ 7.27

* *Natural gas converted to oil equivalent at 6 mcf = 1 bbl*

CASH FLOW PER SHARE
in dollars per share basic



NET EARNINGS PER SHARE
in dollars per share basic



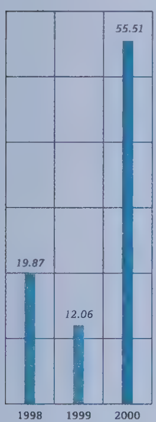
Liquidity and Capital Resources

Real has a strategy of growth through exploration, exploitation and strategic property and corporate acquisitions. The capital expenditure program over the past two years is summarized in the following reconciliation of capital assets

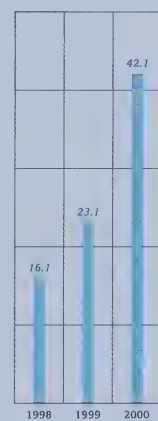
Capital Expenditures

($ thousands)	2000	1999
Gross Capital Assets, January 1	$ 57,737	$ 49,862
Exploration and Development Expenditures		
Lease acquisition and retention	2,653	1,016
Geological and geophysical	2,021	1,367
Drilling and completion	14,894	6,807
Facilities and equipment	3,695	1,438
Total Exploration and Development Expenditures	23,263	10,628
Other capital assets	64	20
Total Capital Expenditures	23,327	10,648
Proceeds from property dispositions	(316)	(2,990)
Net Capital Expenditures	23,011	7,658
Property acquisitions	5,795	1,412
Corporate acquisitions	26,390	–
Tax benefit renounced on flow through shares	–	(1,195)
Future income tax gross-up on corporate acquisitions	12,199	–
Gross Capital Assets, December 31	$125,132	$ 57,737

CAPITAL EXPENDITURES
in $ millions



SHAREHOLDERS' EQUITY
in $ millions



Funding for capital expenditures and acquisitions was provided by cash flow from operations, bank debt, property dispositions and equity issues. Common shares with an attributed value of $7,917,000 were issued on the acquisition of Prism. As at December 31, 2000, the Company had bank debt outstanding of $22,725,000, deferred revenue of $443,000 and a working capital deficiency of $6,584,000 for a total net debt of $29,752,000. This represents an increase of $23,990,000 from the 1999 net debt amount of $5,762,000. The ratio of total net debt as at December 31, 2000 to 2000 cash flow was 1.3 times.

Real has unused credit available on its bank line and together with cash flow from operations will be sufficient to fund ongoing capital expenditures.

BUSINESS RISKS

Real is engaged in the exploration, development and production of crude oil and natural gas. The Company's business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced. Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rate and currency exchange rates. Operational risks include competition, environmental factors, reservoir performance uncertainties, complex regulatory environment and safety concerns.

The Company minimizes its business risks by operating a large number of its properties. This enables the Company to control the timing, direction and costs related to exploration and development opportunities. The geological focus is on areas in which the geological prospects are well understood by management. Technological tools are regularly used to reduce risk and increase the probability of success. The Company closely follows all government regulations and has an up to date emergency response plan that has been communicated to all field operations by management. Maintaining a highly motivated and talented staff of petroleum and natural gas professionals further minimizes the business risk.

The Company manages crude oil and natural gas price risk by using short-term financial derivatives for hedging purposes.

Management's Responsibility for Financial Statements

TO THE SHAREHOLDERS OF REAL RESOURCES INC.

The accompanying financial statements and all other financial information presented in this annual report are the responsibility of Real's management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Management has developed and maintains systems of internal accounting controls, policies and procedures in order to provide for the safeguarding of assets and preparation of relevant, reliable and timely financial information.

External auditors, appointed by the shareholders, have examined the financial statements. The Audit Committee reviews these statements with management and the auditors and reports to the Board of Directors who approve the financial statements.

Lesley Miller

LESLEY L. N. MILLER
Vice President Finance
& Chief Financial Officer

Lowell Jackson

LOWELL E. JACKSON
President & Chief Executive Officer
Calgary, Alberta, Canada

March 14, 2001

[illegible] corporate records for [illegible]
and earnings both in absolute and per share terms.

Auditors' Report

TO THE SHAREHOLDERS OF REAL RESOURCES INC.

We have audited the balance sheets of Real Resources Inc. as at December 31, 2000 and 1999 and the statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

CHARTERED ACCOUNTANTS
Calgary, Canada
March 14, 2001

Financial Statements

BALANCE SHEETS

December 31, 2000 and 1999
(In thousands of dollars)

	2000	1999
Assets		
Current assets		
Cash	$ 117	$ –
Accounts receivable	9,244	4,915
Prepaid expenses	424	82
	9,785	4,997
Capital assets *(note 3)*	90,048	30,118
	$99,833	$ 35,115
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$16,112	$ 6,970
Current portion of deferred revenue *(note 5)*	257	–
	16,369	6,970
Long term debt *(note 4)*	22,725	3,789
Deferred revenue *(note 5)*	443	–
Accumulated future site restoration provision *(note 3)*	2,379	1,238
Future income taxes	15,797	–
Shareholders' equity		
Share capital *(note 6)*	31,182	38,433
Retained earnings (deficit)	10,938	(15,315)
	42,120	23,118
Commitments *(note 9)*		
Subsequent event *(note 11)*		
	$99,833	$ 35,115

See accompanying notes to financial statements.

On behalf of the Board:

JMStewart

JOHN M. STEWART, Director

FRANS BURGER, Director

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

Years ended December 31, 2000 and 1999

(In thousands of dollars, except per share amounts)

	2000	1999
Revenue		
Oil and gas	$ 39,526	$ 15,816
Royalties	(7,965)	(2,564)
Alberta Royalty Tax Credit	290	495
Other	4	7
	31,855	13,754
Expenses		
Operating	5,640	3,635
General and administrative	1,833	1,403
Interest on long term debt	1,008	386
Depletion and depreciation	7,465	2,973
Site restoration	719	519
	16,665	8,916
Earnings before taxes	15,190	4,838
Taxes *(note 7)*		
Current	654	269
Future	5,954	–
	6,608	269
Net earnings	8,582	4,569
Deficit, beginning of year	(15,315)	(19,884)
Restatement – future income taxes	2,356	–
Reduction of stated capital	15,315	–
Retained earnings (deficit), end of year	$ 10,938	$ (15,315)
Earnings per share *(note 6(g))*	$ 0.51	$ 0.30
Fully diluted earnings per share *(note 6(g))*	$ 0.48	$ 0.29

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

Years ended December 31, 2000 and 1999

(In thousands of dollars, except per share amounts)

	2000	1999
Cash provided by (used in):		
Operating Activities		
Net earnings	$ 8,582	$ 4,569
Items not involving cash		
Depletion and depreciation	7,465	2,973
Site restoration	719	519
Future income taxes	5,954	–
Cash flow from operations	22,720	8,061
Changes in non-cash working capital:		
Increase in trade and other receivables	(1,800)	(1,671)
Increase in prepaid expenses	(249)	(25)
Increase in trade and other payables	1,229	1,017
	21,900	7,382
Financing Activities		
Issue of share capital, net	67	3,677
Increase (decrease) in long term debt	16,342	(5,209)
Repayment of notes receivable	80	–
Decrease in prepaid revenue	(62)	–
	16,427	(1,532)
Investing Activities		
Additions to capital assets	(23,327)	(10,648)
Corporate acquisitions	(14,485)	–
Property acquisitions	(5,795)	(1,412)
Proceeds on property dispositions	316	2,990
	(43,291)	(9,070)
Changes in non-cash working capital:		
Decrease (increase) in trade and other receivables	420	(612)
Increase in trade and other payables	4,661	3,390
	(38,210)	(6,292)
Change in cash	117	(442)
Cash, beginning of year	–	442
Cash, end of year	$ 117	$ –
Cash flow from operations per share (note 6(g))	$ 1.35	$ 0.54
Fully diluted cash flow from operations per share (note 6(g))	$ 1.25	$ 0.51
Supplementary disclosure:		
Interest paid	$ 968	$ 386
Capital taxes paid	410	228
Non-cash transactions:		
Share consideration issued on corporate acquisition (note 2)	7,917	–

See accompanying notes to financial statements.

Notes to Financial Statements

Years ended December 31, 2000 and 1999

(Tabular amounts in thousands of dollars)

1. SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results may differ from these estimates.

(a) Joint interests

Significant portions of the Company's oil and gas activities are conducted jointly with others and accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

(b) Capital assets

The Company follows the full cost method of accounting for exploration and development expenditures whereby all costs relating to the acquisition of, exploration for and development of oil and gas reserves are capitalized. Such costs include lease acquisition, geological and geophysical, lease rentals on undeveloped properties, drilling both productive and non-productive wells, production equipment and overhead charges directly related to acquisition, exploration and development activities. Proceeds received from disposals of properties and equipment are credited against capitalized costs unless the disposal would alter the rate of depletion and depreciation by more than 20 percent, in which case a gain or loss on disposal is recorded.

All costs of acquisition, exploration and development of oil and gas reserves, associated tangible plant and equipment costs, and estimated costs of future development of proven undeveloped reserves are depleted and depreciated by the unit of production method based on estimated gross proven reserves as determined by independent engineers. Oil and gas reserves are converted to equivalent units using their relative energy content.

Depreciation of capital assets not related to oil and gas properties is provided using the diminishing balance method at rates between 20 and 30 percent.

Costs of unproved properties are initially excluded from oil and gas properties for the purpose of calculating depletion. These unproved properties are assessed periodically to ascertain whether impairment has occurred. When proven reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion.

The Company applies an annual ceiling test to ensure that its oil and gas properties are carried at the lower of capitalized cost and net recoverable value. Capitalized cost is the net book value of oil and gas properties less the accumulated future site restoration provision and deferred income taxes. Net recoverable value is the amount of estimated future net revenue from production of proven reserves at year end prices and costs, plus the cost of unproved properties (net of impairments), less estimated costs for future administrative overhead, financing, site restoration and income taxes.

(c) Future site restoration

Estimated future site restoration costs for oil and gas properties are provided for over the life of the proven reserves on a unit of production basis. Costs are based on the Company's engineering estimates considering current regulations, costs, technology and industry standards. Actual site restoration expenditures are charged against the accumulated future site restoration provision.

(d) Flow through shares

During 1999, the Company financed a portion of its exploration and development activities through the issue of flow through shares. Under the terms of these share issues, the related resource expenditure deductions for income tax purposes were renounced to investors. Accordingly, share capital and capital assets were reduced by the estimated value of the renounced tax deductions.

(e) Hedging transactions

From time to time the Company uses financial instruments to hedge exposures related to commodity prices and foreign exchange fluctuations on a portion of its crude oil production. Gains and losses on these transactions are recognized as part of oil and gas revenue when realized.

(f) Income taxes

Effective January 1, 2000, the Company adopted the liability method of accounting for income taxes as recommended by the Canadian Institute of Chartered Accountants ("CICA"). Under the liability method, the company records future income taxes for the effect of any differences between the accounting and the income tax basis of an asset or liability. The Company has retroactively adopted, without restatement, the CICA recommendations by recording an increase to retained earnings and a decrease in the future income tax liability of $2,356,000. Prior to 2000, the Company followed the tax deferral method of accounting for income taxes. The impact of this accounting change for the year ended December 31, 2000 was a decrease in earnings of $4,847,000.

(g) Revenue recognition

Payments received for prepaid natural gas sales contracts are recognized as revenue over the term of the contracts.

ACQUISITIONS

The Company acquired all of the issued and outstanding shares of Flatland Resources Inc. ("Flatland") and Prism Petroleum Inc. ("Prism") in 2000. These acquisitions have been accounted for by the purchase method, and accordingly, the respective results of operations have been included in these financial statements from the date of acquisition. Each of the entities have been amalgamated with the Company and continued as Real Resources Inc.

	Flatland	Prism
Date of Acquisition	January 7, 2000	September 7, 2000
Date of amalgamation	January 7, 2000	October 2, 2000
Net assets acquired		
Non-cash working capital	$ –	$ (176)
Capital assets	7,223	31,366
Long term debt	–	(2,594)
Prepaid revenue	–	(796)
Accumulated site restoration provision	–	(422)
Future income taxes	(3,223)	(8,976)
	$ 4,000	$ 18,402
Financed by		
Cash	$ 4,000	$ 10,485
Issue of shares	–	7,917
	$ 4,000	$ 18,402

3. CAPITAL ASSETS

	2000	1999
Oil and gas properties, plant and equipment	$124,745	$ 57,416
Other	387	321
	125,132	57,737
Less accumulated depletion and depreciation	35,084	27,619
	$ 90,048	$ 30,118

At December 31, 2000, oil and gas properties included $5,000,000 (1999: $3,000,000) relating to unproved properties which have been excluded from the depletion and depreciation calculation. Future development costs on proven undeveloped reserves of $4,805,000 are included in the depletion and depreciation calculation.

In 2000, the Company capitalized $845,000 (1999: $532,000) of overhead directly related to acquisition, exploration and development activities.

At December 31, 2000, the estimated future site restoration costs to be accrued over the remaining life of proven reserves were $7,201,000.

4. LONG TERM DEBT

The Company has a demand revolving credit facility in the amount of $38,000,000 with a Canadian chartered bank. The maximum availability on the facility will reduce by $2,250,000 per quarter commencing April 1, 2001. The facility bears interest at the bank's prime rate or bankers' acceptance rate plus stamping fee and is secured by a $50,000,000 fixed and floating charge debenture conveying a first fixed charge on certain of the Company's oil and gas assets and a first floating charge on all of the assets and undertakings of the Company.

Repayments are not required provided that the borrowings under the facility do not exceed the lesser of the maximum availability and the borrowing base and the Company is in compliance with all covenants, representations and warrants. The facility is subject to a borrowing base review at least annually.

The bank has indicated that while it reserves the right to request payment on demand, no principal payments are anticipated and the facility will continue in the future provided the Company satisfies the conditions of the facility agreement.

5. DEFERRED REVENUE

As part of the Prism acquisition (note 2), the Company became party to a prepaid natural gas sale agreement. Pursuant to the agreement, the Company will deliver the following remaining quantities of natural gas:

2001	350 Gigajoules per day
2002	300 Gigajoules per day
2003	300 Gigajoules per day

The purchaser has been granted a first charge and security interest in and to certain lands in the West Provost area.

6. SHARE CAPITAL

(a) Authorized

Unlimited number of voting common shares without par value.

Unlimited number of first, second, third and fourth class preferred shares, issuable in series.

(b) Common shares issued

	2000 Number of shares	2000 Amount	1999 Number of Shares	1999 Amount
Balance at beginning of year	16,028,212	$ 38,513	11,923,055	$ 36,031
Reduction of stated capital	–	(15,315)	–	–
Issued for cash on exercise of stock options	37,501	67	–	–
Issued for cash on flow through shares issues	–	–	105,157	–
Issued for cash	–	–	4,000,000	4,000
Issued on Prism acquisition	2,408,532	7,917	–	–
Tax benefit renounced on flow through shares	–	–	–	(1,195)
Issue costs	–	–	–	(323)
	18,474,245	31,182	16,028,212	38,513
Less notes receivable	–	–	–	(80)
Balance at end of year	18,474,245	$ 31,182	16,028,212	$ 38,433

(c) Reduction of stated capital

The Company eliminated the accumulated deficit as at December 31, 1999 by reducing stated capital as ratified by shareholders at the May 18, 2000 Annual General and Special Meeting.

(d) Share consolidation

On May 18, 2000, shareholders of the Company approved the consolidation of the common shares on the basis of one new common share being issued for every four previously issued and outstanding common shares.

(e) Options

The Company has a stock option plan that provides for the issuance of options to its directors, officers and employees to acquire up to 1,602,820 common shares. No compensation expense is recognized for this plan when stock or stock options are issued to employees. Consideration paid by employees on exercise of stock options and purchase of stock is credited to share capital.

A summary of the status of the Company's stock option plan as of December 31, 2000 and 1999, and changes during the years ended on those dates is presented below:

	2000		1999	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of year	1,275,833	$ 2.44	830,000	$ 3.56
Granted	430,000	$ 2.96	615,000	$ 1.72
Exercised	(37,501)	$ 1.79	–	–
Expired/Cancelled	(69,166)	$ 2.80	(169,167)	$ 3.08
Outstanding at end of year	1,599,166	$ 2.59	1,275,833	$ 2.44
Options exercisable at end of year	651,249	$ 2.75	332,778	$ 3.20

During 1999, stock options previously granted to non-management employees with exercise prices greater than $2.64 were repriced at $1.68.

The following table summarizes information regarding stock options outstanding at December 31, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$1.32 – $1.48	87,917	3.8	$ 1.43	29,305	$ 1.43
$1.60 – $1.96	636,249	3.0	$ 1.69	242,778	$ 1.65
$2.08 – $2.44	117,500	3.9	$ 2.40	26,667	$ 2.42
$2.72 – $2.95	62,500	4.7	$ 2.90	–	–
$3.00 – $3.48	368,750	3.3	$ 3.39	130,833	$ 3.32
$3.52 – $3.60	238,750	2.1	$ 3.60	150,833	$ 3.60
$4.20 – $4.40	87,500	1.7	$ 4.31	70,833	$ 4.29
	1,599,166	3.1	$ 2.59	651,249	$ 2.75

Subsequent to year end, the Company granted options to purchase 100,800 common shares at prices ranging from $3.10 to $3.48 per share which expire in February 2005. Also subsequent to year end, options with respect to 18,165 shares were exercised at a weighted average price of $1.67 per share.

(f) Warrants

At December 31, 2000, warrants to purchase 312,500 common shares at an exercise price of $4.00 per share were outstanding. The warrants expire in September 2001.

(g) Per share amounts

Earnings and cash flow from operations per share are calculated using the weighted average number of common shares outstanding of 16,803,128 (1999: 15,032,976). Fully diluted earnings and cash flow from operations per share calculations include imputed interest of $326,000 (1999: $262,000) calculated at a rate of 7.23 percent (1999: 6.50 percent) on proceeds from the exercise of options and warrants.

7. INCOME TAXES

The differences between the expected income tax provision based on the combined federal and provincial statutory tax rate of 44.6 percent and the amount actually provided are as follows:

	2000	1999
Expected income taxes	$ 6,778	$ 2,159
Non-deductible Crown payment	2,588	794
Alberta Royalty Tax Credit	(129)	(221)
Resource allowance	(3,147)	(1,134)
Non-deductible depletion	–	230
Benefit of prior year losses	–	(1,695)
Other	(136)	(133)
	5,954	–
Capital taxes	654	269
	$ 6,608	$ 269

The Company's future income tax liability as at December 31, 2000 is comprised of the following:

Capital assets having different income tax and accounting basis	$ 16,858
Future site restoration costs	(796)
Share issuance costs	(265)
	$ 15,797

8. RELATED PARTIES

A director of the Company is a partner of a law firm that was paid $194,000 (1999: $83,000) for legal services. The fees charged were based on standard rates and time spent on company matters.

9. COMMITMENTS

Operating leases

The Company is committed to payments under operating leases for office space, computer hardware, software licence agreements and vehicles as follows:

2001	$ 422
2002	392
2003	109
	$ 923

Pursuant to a gas transportation agreement, the Company has a commitment for transportation charges as follows:

2002	$ 63
2003	63
2004	63

10. FINANCIAL INSTRUMENTS

The carrying values of cash, accounts receivable, notes receivable, accounts payable and accrued liabilities approximate their fair value due to their demand nature or relatively short periods to maturity.

A substantial portion of the Company's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. Purchasers of the Company's oil, gas and natural gas liquids are subject to an internal credit review to minimize the risk of non-payment.

At December 31, 2000 and 1999, all of the long term debt was floating rate debt and there were no material contracts or options in place to fix the interest rate on this debt.

The Company uses derivative financial instruments to manage its foreign currency and commodity price exposures. These financial instruments are entered into for hedging purposes only. The Company would have received $697,000 to settle the outstanding contracts for derivative financial instruments based on the estimated market values as at December 31, 2000.

As at December 31, 2000, the Company had hedged 400 barrels of crude oil per day at a price of U.S.$29.55 per barrel through price swaps for 2001. The Company entered into a foreign exchange contract to hedge at 1.55 the U.S. dollar exchange rate applicable on this price swap. The Canadian dollar equivalent of the crude oil price swap is $45.80.

An additional 400 barrels of crude oil per day for 2001 was hedged through collar arrangements whereby the price the Company will receive will range between U.S.$27.00 per barrel and U.S.$31.90 per barrel. A foreign exchange contract was entered into to hedge the exchange rate at 1.55 on a notional volume of 400 barrels per day at U.S.$27.00 for 2001.

A put option was purchased on a volume of 800 barrels of crude oil per day at a strike price of U.S.$23.00 for 2001. The Company also hedged through price swaps 3,000 gigajoules of natural gas per day at an average price of $6.85 per gigajoule until October 31, 2001.

11. SUBSEQUENT EVENT

On March 1, 2001, the Company acquired all the issued and outstanding shares of Embo Petroleum Inc., a privately held oil and gas company, for cash consideration of $2,888,250.

Information for Shareholders

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Reserve Audit Committee (3)
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